

-32-

compared projects going. The longer this period, the longer the capital investments remain inert, while capital invested in a project with a shorter construction period will already be working. Here the following arguments should be considered: if the capital remaining for a time inert due to delay in construction, had been invested in some other section of the national economy, it would allow an increase in labor productivity and give an effect, conditionally equal to the average effect for the entire national economy. This is what should be taken into account in the comparison. In other words, for projects requiring longer construction periods, to the total ~~sum~~<sup>amount</sup> of construction and operational costs the unrealizable part of the national product should be added.

When comparing alternative projects differing in periods of investment, the effect of delaying investments should be estimated. This refers to a case <sup>where</sup> when, say, one project requires a smaller sum but without delay, while the other requires a larger sum but over 5 or 10 years. If the latter project is chosen, assets may be not invested immediately, but used in another section of the national economy, where in the 5 or 10 years in question, they would bring a growth of production conditionally at the <sup>same</sup> rate as in the overall national economy. This shows that delay of investments to a later date is similar

-33-

to an increase of the current year's capital investments by the same sum with all the ensuing consequences. Therefore it is of paramount importance not to freeze investments but if possible transfer them to the following years applying the released assets where the demand is most keen.

On the other hand, capital investments planned for the future may be expressed in terms of to-day's investments. For this purpose the assets to be invested in the future, say over "t" years, may be regarded as a sum of to-day's investments plus the effect which can be derived during these "t" years. In For instance, five million roubles to be invested over "t" years may be regarded as three million roubles invested today, plus <sup>a</sup> two million roubles effect obtained in the "t" years period. <sup>That is</sup> ~~In other words~~, a capital investment "A" will give a certain <sup>economy</sup> effect in the period of "t" years, so that the capital investment plus the economy will amount to " $AR$ ", where " $R$ " is the ~~rate of growth~~ <sup>one</sup>, which is more than ~~2.5%~~. This means that the capital " $AR$ " invested in the "t" <sup>th</sup> ~~th~~ year <sup>hence</sup> is equivalent to the capital "A" invested today, <sup>in</sup> ~~other~~ <sup>words</sup> the expenditure " $AR$ " of the <sup>"t"th</sup> ~~"t"th~~ year <sup>may</sup> ~~be~~ <sup>will</sup> equalled to the expenditure of <sup>"A"</sup> ~~"A"~~ the initial year.

~~As justly pointed out by Academician S.G. Stranilin, The~~ comparison of alternative projects should take into account

-34-

that, as time goes on, the cost of materials and means of production will drop as a consequence of ~~the~~ technical progress, the growth of labour productivity and the reduction of production costs. Therefore in calculating the prospective effectiveness, as we always have to do, one has to deal with prospective prices, and take into account their forthcoming reduction.

Thus by analysing the effectiveness of capital investments made in previous years, and on the plan data concerning the national product, national income, consumption and accumulation, it is possible to establish a system of capital investment effectiveness indexes in order to assess the expediency of such investments in the process of planning and designing. The main task of such economic calculations is to compare, on the ~~first~~<sup>one</sup> hand, the expenditure of social labour involved in the realization of the project, and, on the other hand, the advantages which the project can give to the national economy. In the process calculations of expenditures and profit should be as complete as possible not only in the narrow limits of the given branch of industry, but also in other branches of the entire national economy, with which the project may be connected. Furthermore, these comparisons should not refer to some period taken at random, but should

-35-

embrace a period of sufficient duration and ~~take~~ into  
account the prospective development of the country's national  
economy.

*T. Khachatur*